

MONTHLY REVENUE REPORT

October 2001

The revenue collected from 12 of Michigan's major General Fund and School Aid Fund earmarked taxes totaled \$2.02 billion in October, which was down 1.1% from last year's level. This marked the eighth time in the past 12 months that tax collections have fallen short of the previous year's level. The weakness in October's revenue collections is reflected in two key points: 1) The decline in revenues was widespread, as 10 of the 12 major taxes tracked in this report experienced a decline in revenue in October, and 2) without a strong, albeit temporary, surge in motor vehicle sales, which boosted sales tax collections, October tax collections would have been down 3.2%.

Under Generally Accepted Accounting Principles (GAAP), most of October's tax collections will be accrued back to FY 2000-01, which ended September 30, 2001. October revenues will be accrued if the liabilities for these payments were incurred before the end of FY 2000-01. Therefore, based on FY 2000-01 collections to date, which include cash collections from November 2000 through October 2001, tax revenues for these 12 major taxes are down 2.2%. Final revenue for FY 2000-01 will be determined when all accruals and book-closing adjustments are made, which should be accomplished by the end of January 2002.

Gross income tax collections totaled \$583 million in October, down 6.0% from the year-ago level. Income taxes withheld from workers' earnings, which accounted for 94% of October's income tax collections, were down 5.8% in October. None of this decline can be attributed to the ongoing phased reduction in the income tax rate, because the current rate of 4.2% was also in effect last year at this time. Quarterly income tax payments were down 10.3% in October, while annual payments declined 8.8%. Based on cash collections from November 2000 through October 2001, FY 2000-01 gross income tax collections are down 3.8% from the comparable FY 1999-2000 cash collections.

Sales tax collections posted a 4.3% increase in October to \$625 million. This increase in October followed a 2.9% decrease in September and a modest 1.0% increase in August. The increase in October sales tax collections was due to an incredible 46.7% increase in the sales tax collected from motor vehicle transactions, as the zero-percent financing plans being offered by many motor vehicle companies persuaded many consumers to purchase new vehicles. Sales tax collections from all other taxable retail sales were down 2.8% in October. For FY 2000-01, sales tax cash collections are up 0.6%.

Single business and insurance tax collections totaled \$258 million in October, which represented a 2.2% decline from last year's level. A quarterly payment is due at the end of October and these payments are received and processed by the State in October and November. Frequently, in the past, a decline in October collections has been made up in the November collections; however, it does not appear that this will happen this year. Collections during the first part of November were tracking well below the actual collections during the same period last year. This drop in these business tax payments is due to the slumping economy and the ongoing reduction in the single business tax rate. Cash collections from November 2000 to October 2001 were down 9.5% from the comparable year-ago level.

The table on the back of this report identifies the major taxes included in this report, and provides their respective revenue levels and growth rates for October 2001, along with their fiscal year-to-date revenue collections and growth rates. Also presented are their respective consensus revenue estimates for FY 2000-01.

Jay Wortley, Senior Economist



**MICHIGAN REVENUE UPDATE
OCTOBER 2001
(dollars in millions)**

| Type of Revenue | October Collections | | FY 2000-01 to Date ²⁾ | | FY 2000-01 Estimate ³⁾ | |
|---|---------------------|---------------------------|----------------------------------|---------------------------|-----------------------------------|---------------------------|
| | Total ¹⁾ | % Change From Year Ago | Total ¹⁾ | % Change From Year Ago | Total ¹⁾ | % Change From Year Ago |
| Income Tax | | | | | | |
| Withholding | \$549.1 | (5.8)% | \$6,603.2 | (2.1)% | \$6,636.4 | (1.7)% |
| Quarterly Payments | 10.5 | (10.3) | 783.1 | (9.6) | 784.6 | (9.1) |
| Annual Payments | 23.7 | (8.8) | 693.2 | (12.4) | 688.3 | (13.0) |
| Gross Income Tax | \$583.3 | (6.0)% | \$8,079.5 | (3.8)% | \$8,109.3 | (3.5)% |
| Sales Tax | 625.0 | 4.3 | 6,390.4 | 0.6 | 6,347.8 | 1.1 |
| Use Tax | 115.1 | (11.9) | 1,327.2 | (2.3) | 1,335.2 | (1.5) |
| Tobacco Tax | 45.4 | (7.0) | 595.0 | (1.3) | 597.8 | (1.1) |
| Single Business & Insurance Taxes | 258.3 | (2.3) | 2,282.0 | (9.5) | 2,242.4 | (10.9) |
| State Education Property Tax | 343.0 | 8.9 | 1,456.3 | 7.9 | 1,444.4 | 4.6 |
| Real Estate Transfer Tax | 21.7 | (26.9) | 254.6 | 0.3 | 262.0 | 1.9 |
| Estate/Inheritance Tax | 18.0 | (24.7) | 161.7 | (8.5) | 155.0 | (12.6) |
| Oil & Gas Severance Tax | 5.6 | (11.1) | 60.5 | 29.8 | 60.0 | 36.7 |
| Total | \$2,015.4 | (1.1)% | \$20,607.2 | (2.2)% | \$20,553.9 | (2.2)% |
| Addendum: | | | | | | |
| Gross Lottery Sales ⁴⁾ | \$117.7 | (10.8)% | \$1,614.9 | (4.5)% | \$1,616.4 | (4.6)% |
| Net Lottery to School Aid ⁴⁾ | \$ 43.3 | (7.5)% | \$ 586.3 | (4.3)% | \$ 590.0 | (4.6)% |

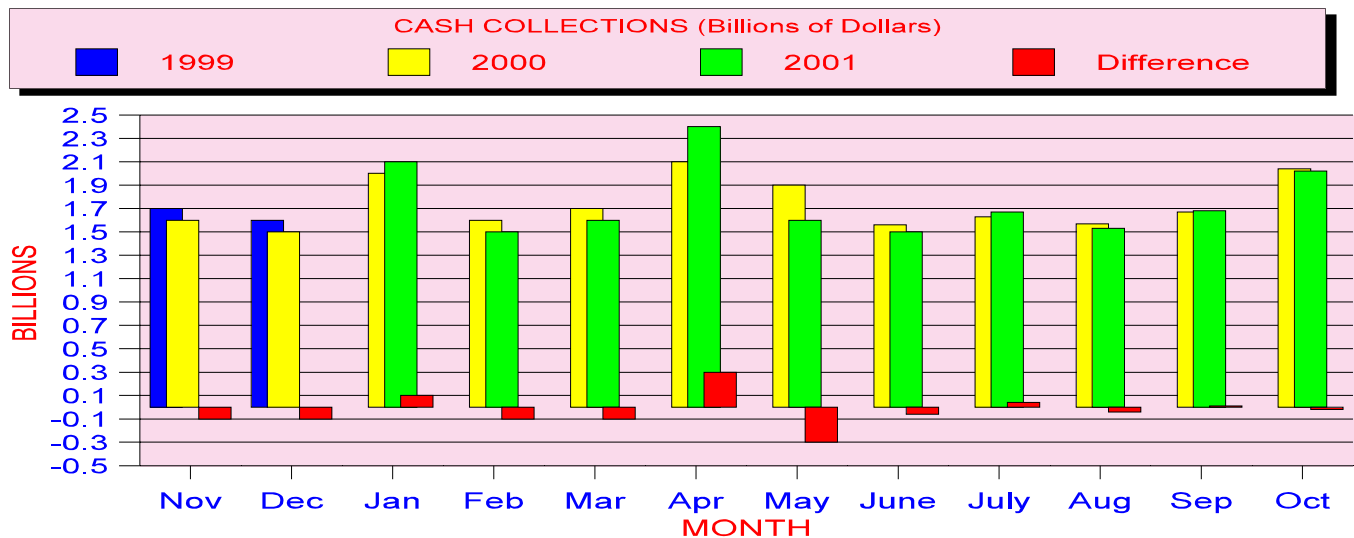
1) Total collections are unadjusted cash collections unless otherwise noted.

2) FY 2000-01 year-to-date collections begin with November 2000 collections to reflect accrual accounting.

3) Revenue estimates adopted at the October 23, 2001, Consensus Revenue Estimating Conference.

4) Lottery revenue is not accrued, so October 2000 lottery revenue will be included in 2001-02.

**Actual Revenue Collections for 12 Major State Taxes*
November 1999 to October 2001**



* Comparison of actual collections. The 12 taxes include the income (withholding, quarterly payments and annual payments), sales, use, tobacco, SBT, insurance retaliatory, estate, oil and gas severance, State education, and real estate transfer taxes.